Budget Bulletin
Senate Budget Committee
Majority Staff
A Weekly Bulletin produced when the Senate is in session
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105th Congress, 1st Session: No. 2

January 27, 1997

INFORMED BUDGETEER

CBO PRE-POLICY ECONOMICS

- CBO's pre-policy economic assumptions are little changed from last year, barring an upward shift in the corporate profit shares. Near-term GDP growth is expected to be slightly firmer in the latest projections compared to last May's, but the 2000-2002 growth forecasts are unchanged.

- CBO will release its post-policy economic forecasts on Tuesday, January 28th, which reflect the assumption of a balanced budget by 2002. This assumption will give a boost to the pre-policy GDP growth and corporate profit share forecasts, while lowering expected interest rates. However, given the lower starting level of the deficit in FY97, the 'balanced budget bonus' to the economic figures will be somewhat lower than in May 1996's calculations.

- In May 1996, CBO estimated that the "balanced budget bonus" or fiscal dividend would cumulate to $254 billion over the 1997-2002 period. Nearly 60 percent of the cumulative fiscal dividend resulted from reduced outlays on government expenditures sensitive to interest rates reductions, principally government net interest expenditures.

CBO'S ECONOMIC FORECASTS FOR 1997-2002
(PRE-policy forecasts, calendar years)

	1997	1998	1999	2000	2001	2002
Real GDP Growth	2.3%	2.0%	2.2%	2.1%	2.1%	2.1%
GDP Deflator	2.3%	2.5%	2.6%	2.6%	2.6%	2.6%
CPI-U	2.9%	2.9%	3.0%	3.0%	3.0%	3.0%
Unemployment Rate	5.3%	5.6%	5.8%	5.9%	6.0%	6.0%
3 Month Treasury Bill	5.0%	5.0%	4.9%	4.7%	4.6%	4.6%
10 Year Treasury Note	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Corporate profit share-GDP	8.3%	8.2%	8.0%	7.8%	7.6%	7.5%

NEW MEDICARE AND MEDICAID BASELINES

- CBO baseline Medicare spending for the five year period 1998-2002 has dropped $48 billion since last year. Baseline Medicaid spending for the same period has dropped $80 billion.

- Budget analysts should conclude that the effects of Medicare and federal Medicaid spending on the budget deficit will grow slightly less rapidly than formerly projected. In short, this new baseline data makes the budget picture brighter.

- Health analysts, however, should not begin to celebrate. The ten year growth rate of net total Medicare spending is still unsustainable at 8.6 percent per year. Over the next five years, the average growth rate will be 8.8 percent.

- Similarly, the Medicaid outlook is still grim. Although federal Medicaid spending increased only 3.3 percent from 1995 to 1996, about one-third of the change in the baseline results from this one year anomaly.

- CBO's ten year growth rate for federal Medicaid spending is still 8.2 percent. Over the next five years, the growth rate is 7.8 percent. The one-time slowdown may have resulted from timing changes as Governors front-loaded 1996 spending into 1995. Remember the Medicaid formula fight? It was based on spending levels in 1995. So although the new baseline data may provide slightly more wiggle room for budget negotiators, the fiscal outlook for these two programs on their own is still grim.

- Simple arithmetic demonstrates that such spending patterns cannot be maintained without decimating discretionary spending or significantly increasing either taxes or deficits. How can we maintain a situation in which $290 billion of spending, about one-sixth of the budget, grows more than eight percent per year, when nominal long-term GDP growth is between four and five percent?

Medicare & Medicaid Growth, 1997-2002
(CBO January 1997 baseline, $ in billions)

	1997	2002	Total growth $	Total growth %	Annual growth
Medicaid	98.6	143.8	45.2	46%	7.8%
Medicare					
Net total	191.8	291.8	100.0	52%	8.8%
Premium receipts	20.2	25.6	5.4	27%	4.9%
Gross total	212.0	317.4	105.4	50%	8.4%

THE CURRENT LEVEL REPORT

- "Current level" represents the estimated revenue and direct spending effects of all legislation that Congress has enacted. The Congressional Budget Office issues periodic "current level" reports (about every two weeks when the Senate is in session) which compare the budget effects of enacted legislation to the targets and ceilings set in the budget resolution.

- The current level report is the basis for points of order under Section 311 of the Budget Act.

- The first report for the first session of the 105th Congress shows that current level for 1997 outlays is $12.6 billion above the budget resolution. This is due to the fact that the 1997 budget resolution assumed savings that were not enacted last session.

- Current level revenues are $17.8 billion above the budget resolution for 1997, and $99.2 billion above the resolution for 1997-2001. This is because the resolution assumed a family tax relief package that was not enacted last session.

FY 1997 CURRENT LEVEL REPORT
as of Close of Business, January 21, 1997
(In billions of dollars)

	Budget Resolution H.Con.Res.178	Current Level	Level Over/under Resolution
On-Budget			
Budget Authority	1314.9	1331.8	16.9
Outlays	1311.3	1323.9	12.6
Revenues:			
1997	1083.7	1101.5	17.8
1997:2001	5913.3	6012.5	99.2
Deficit	227.3	222.4	-4.9
Debt Subject to Limit	5432.7	5222.9	-209.8
Off-Budget			
Social Security Outlays:			
1997	310.4	310.4	0.0
1997-2001	2061.3	2061.3	0.0
Social Security Revenues			
1997	385.0	384.7	-0.3
1997-2001	2121.0	2120.3	-0.7

ECONOMICS

FOREIGN PURCHASES OF US FINANCIAL ASSETS

- The Federal Reserve's Flow of Funds Data show that foreigners were voracious buyers of Treasuries from 1992- 1996Q3, but had only subdued interest in the equities.

- Of the $895 billion in foreign purchases of US stocks and non-agency bonds, 53 percent went into Treasuries, 28 percent went into stocks, and 19 percent went into corporate bonds. This seems somewhat surprising in light of the fact that the bond market's performance was mixed over this period, while the Dow doubled in value.

- The reasons for this investment split become clearer, however, when one sees that foreign central banks bought nearly half of the total $475 billion in foreign purchased Treasuries. These entities must purchase safe assets (generally government paper) in order to uphold their charters.

- The central banks chose to buy Treasuries primarily to weaken their own currencies and support their local exporters. The Bank of Japan alone bought $146 billion in Treasuries (or 16 percent of all foreign inflow into US stocks and non-agency bonds from 1992- 1996Q3). This is troublesome since Japan will cease its rapid buying once its economy regains its footing.

Foreign Holdings of US Foreign Assets
($ in Billions)

	1992	1993	1994	1995	1996 Q3	1992 to 1996 Q3
Corporate equities						+$247
Foreign Holdings	329	374	369	509	576	
% of all holdings	6.2	6.2	6.2	6.4	6.5	
Treasuries						+475
Foreign Holdings	548	625	660	860	1,023	
% of all holdings	17.9	18.9	19.0	23.8	27.6	
Corporate Bonds						+$173
Foreign Holdings	252	273	311	369	425	
% of all holdings	13.3	13.1	14.0	14.8	16.1	
Stocks & Bonds						**+$895**
Foreign holdings[A]	**1,129**	**1,272**	**1,340**	**1,738**	**2,024**	
% of all holdings	**11.0**	**11.2**	**11.5**	**12.3**	**13.3**	

[A]Combined Foreign Holdings. SOURCE: Federal Reserve Bank

DISCRETIONARY SPENDING HISTORY

- Over the past 15 years federal spending for all discretionary programs has remained flat when adjusted for inflation -- growing from $472.8 billion in 1981 to $482.0 billion in 1996.

- Defense spending has remained unchanged over this period while spending for crime and drug programs has grown 112%. The biggest loser- energy programs down 67%.

Discretionary Outlays by Function, 1981-1996
(billions of constant 1992 dollars)

	1981	1996	Change 1981-1996
Defense	242.5	242.5	0%
International	20.9	16.4	-22%
General Science	2.3	3.5	52%
Space	7.6	11.2	47%
Energy	15.8	5.2	-67%
Natural resources	23.5	18.7	-20%
Agriculture	2.7	3.5	30%
Commerce	6.5	2.8	-57%
Transportation	31.8	33.4	5%
Community Development	13.7	9.5	-31%
Education	19.7	22.5	14%
Training Employment, SS	18.9	11.8	-38%
Health	14.1	20.1	43%
Medicare	1.9	2.6	37%
Housing	10.9	24.2	122%
Income Security	9.9	10.3	4%
Social Security	2.6	1.4	-46%
Veterans	12.0	16.5	38%
Justice	7.3	15.5	112%
General Government	8.2	10.4	27%
Non-defense subtotal	230.3	239.5	4%
Discretionary Total	**472.8**	**482.0**	**2%**

SOURCE: President's Budget FY 1998, Historical Tables.

CALENDAR

BUDGET COMMITTEE HEARING SCHEDULE

All hearings will be held in Dirksen 608 at 10:00 am unless otherwise noted. Additional hearings may be scheduled.

"BEYOND THE BRIDGE"

January 28: **CBO Economic and Budget Outlook**: Congressional Budget Office Director, Dr. June O'Neill.

January 29: **Proposals for Reforming Social Security**: Dr. Edward Gramlich, Chairman, Advisory Council on Social Security; Thomas W. Jones, Member, Advisory Council and Chairman of TIAA-CREF; Gene Steuerle, The Urban Institute; Carolyn Weaver, American Enterprise Institute; and Theodore Marmor, Professor, Yale School of Management.

January 30: **The Consumer Price Index**: Stanford Professor, Dr. Michael Boskin; and Bureau of Labor Statistics Commissioner, Dr. Katharine Abraham. 9:00am (Note time)

February 5: **Education and the Budget:** Dr. Eric Hanushek, University of Rochester, Dr. Caroline Minter Hoxby, Harvard and other witnesses.

February 6: **President Clinton releases his FY 1998 Budget.**

February 7: **President's FY 1998 Budget:** Office of Management and Budget Director, Frank Raines.

February 10: **President's FY 1998 Budget:** Secretary of the Treasury, Robert Rubin. 2:00 p.m. (Note time)

February 13: **Biennial Appropriations and Budgets**.

NEW SENATE BUDGET COMMITTEE PUBLICATIONS

✍**The Congressional Budget Process- An Explanation**: The Senate Budget Committee has produced a Committee Print (S. Prt 104-70) which provides an overview of the Congressional budget process, including a history of budget law, review of enforcement mechanisms, points of order, and Budget Committee history. Copies of the Committee Print can be obtained by contacting Alex Green, SBC Publications at 224-0855 or look for it on our forth- coming SBC web site.

✍**Tax Expenditures - Compendium of Background Material**: The Congressional Research Services has produced an updated compendium of tax expenditures for the use of the Budget Committee. The publication includes a description of each provision, its revenue cost and impact, its underlying rationale, and bibliographic references. The compendium will be available January 29, 1997 by contacting Alex Green, SBC Publications at 224-0855.